

ICPS newsletter®

Consumer confidence: a new surge of optimism

During Q1'05, the confidence of Ukrainian consumers improved significantly. The Consumer Confidence Index (CCI) rose to a new record high of 107.3 in March, 7.2 points higher than in December 2004. Consumer confidence has improved because of a steep increase in optimistic economic expectations. As a result of high inflationary expectations, the Index of the Current Situation dropped 5.4 points to 92.9. Respondents with below-average incomes mostly show optimistic economic expectations

In March 2005, Ukraine's Consumer Confidence Index jumped to a new record high of 107.3, growing 7.2 points above the value registered during the previous poll in December 2004. A CCI value above the 100-mark shows that optimistic expectations prevail in the society. Growing optimism is the result of a steep increase in economic expectations among Ukrainians: the Index of Economic Expectations (IEE) leapt 15.6 points to a new record of 117 during the first quarter of 2005.

However, the Index of the Current Situation (ICS) has been declining for two consecutive quarters. In March 2005, the ICS stood at 92.9, 5.4 points below the value registered in December 2004. The Index of Current Personal Financial Standing (x1) slipped 9.6 points over this period, to 93.3, which reveals that the share of respondents who say their personal financial standing deteriorated during the last six months has grown.

This deterioration in personal financial standing is, apparently, related to

Indices

Consumer Confidence Index (CCI)	107.3 +7.2
Index of the Current Situation (ICS)	92.9 -5.4
Index of Economic Expectations (IEE)	117.0 +15.6
Index of Expected Changes in Unemployment (IECU)	98.9 -8.4
Index of Inflationary Expectations (IIE)	182.0 +2.0

Sources: GfK-USM, ICPS

inflation. Inflationary expectations have continued to be high for three quarters in a row. The Index of Inflationary Expectations (IIE) climbed 2 points to 182, compared to December 2004. Nevertheless, consumers expect their personal incomes to grow enough over the next six months to overcome any negative inflationary impact. The Index of Expected Changes in Personal Financial Standing (x2) jumped 12.8 points during the first quarter, to 109.3, another record high. Short-term expectations of economic development among Ukrainians also largely improved: the relevant index (x3) grew 24.2 points to 122, which points to a significant increase among respondents who think that the next 12 months will be a good time for the country's economy.

Expectations of changes in unemployment also improved. The Index of Expected Changes in Unemployment (IECU) fell 8.4 points to 98.9. For the first time during the entire history of consumer confidence research in Ukraine, the IECU dropped below 100. This indicates that, in March 2005, most respondents thought that joblessness would go down over the next 12 months.

Positive consumer confidence prevailed in all regions, except for eastern oblasts. Still, consumer confidence in eastern Ukraine improved over Q1'05: the relevant CCI grew 5.5 points to 94.7. Consumer confidence among residents of eastern oblasts improved due to an increase in positive, mainly short-term, economic expectations: the relevant index (x3) skyrocketed 31.4 points to 100.9. As in other regions, expectations of changes in unemployment among respondents in eastern regions improved: the relevant IECU slipped 7.1 points to 106.4. The Index of

A thank-you to CIDA

In the 25 April issue of the *icps newsletter*, we announced the publication of a new handbook for carrying out public consultations. This handbook was issued under the "Second Opinions: Government priorities and the institutionalization of consultation with the public in forming policy in Ukraine" project, carried out by ICPS with the financial support of the Canadian International Development Agency (CIDA).

CIDA projects are special for their precise focus on the most important needs of democratic transformations in government and non-government institutions. We are very thankful to CIDA for their long-term, productive partnership, for their assistance in transferring invaluable experience, and for their support of initiatives in strengthening democratization in Ukraine. Among these projects were:

- Building National Integrity;
- Economic Modelling and Forecasting in Ukraine;
- Institutional Capacity to Develop Economic Programs;
- Network for Policy Development in the Government of Ukraine;
- People's Voice.

For more on ICPS projects, visit our website at <http://www.icps.kiev.ua/eng/activity/>.

Inflationary Expectations in eastern regions stood at 188.2 and was the highest among the values registered across the regions.

Rural dwellers and residents of small towns are more optimistic than residents of medium and large urban areas. Such a split in consumer confidence is, apparently, the reaction of respondents to new Government policies aimed at cutting state support to industry. Compared to the previous poll, the CCI for large cities rose 2.5 points to 99.9 and the relevant IEE

leapt 14.2 points to 105.3. Expectations of changes in unemployment among residents of large cities also improved: the IECU plunged 22.3 points during Q1'05, to 97.5.

The poll registered an improvement in consumer confidence among representatives of all ages and income groups. For the first time in the history of consumer confidence research in Ukraine, the poll showed a prevalence of optimistic economic expectations among Ukrainians

with below-average incomes: the relevant IEE climbed 14.6 points to 112.6. However, this income group also has the highest inflationary expectations: the IIE for this group stands at 188.7. ■

Consumer Confidence is a joint project of the International Centre for Policy Studies and GfK-USM — one of the leading companies which surveys the Ukrainian market. For further information on the Ukrainian household expectations survey, please contact Yevhenia Akhtryko

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If you would like to subscribe to the Consumer Confidence bulletin, with a detailed quarterly analysis of the CCI in Ukraine, contact our client relations and marketing manager Andriy Starynskiy by telephone at (380-44) 236-4477 or via e-mail at astarynskiy@icps.kiev.ua. You can also order ICPS publications through the ICPS website, at <http://www.icps.com.ua/eng/subscribe/>.

ICPS publishes manual on regulating natural monopolies

The Centre has developed "A Manual on Regulating Natural Monopolies" for regulatory agencies and educational institutions. It presents key principles and approaches to regulation that are universal for all markets dominated by natural monopolies. The manual was published in response to a need to provide educational and methodological support for the activities of regulatory agencies as regulation is introduced in a growing number of sectors

Today, Ukraine is in the process of institutionalizing state regulation of natural monopolies. Since the adoption of the Law "On natural monopolies," regulatory commissions have been set up in the power industry, the oil and gas complex, and communications sector. A new regulatory system is to be introduced in water supply, sewage and centralized heating.

State regulation of natural monopolies is a new practice for Ukraine. Regulation in market economy environment is not a return to the principles of planned economy, with centralized state distribution of resources and planning of economic activities. The need for state interference in a market economy arises where competition is virtually impossible for objective reasons. The purpose of introducing such regulation is to set fair prices, provide incentives for efficient performance, and protect consumers of the goods or services being provided.

Although the regulatory system in different infrastructure sectors is at various developmental stages in Ukraine, the problems with implementing regulation are the same. The issue of determining fair price and rate of return arises in the communication, water and energy sectors. Methods for analyzing efficiency are universal and can be used by all regulatory agencies. A cross-sector approach to regulating natural monopolies is a special feature of this manual. In practice, the manual can be used for setting up a new regulatory

system or developing existing ones for natural monopolies and adding these regulatory methods to the set of tools used by regulatory agencies.

The manual consists of four sections:

The theory of regulating natural monopolies. This section identifies the subject of regulation and the procedures for implementing it. It looks into the costs and benefits of various options for introducing regulation.

The microeconomic principles of running a natural monopoly. Section 2 presents the economic definition of a natural monopoly and a theory of "ideal pricing." It also identifies options for and specifics of government pricing policy during the introduction of regulation.

Methods for evaluating the efficiency of natural monopolies. This section provides methods for evaluating efficiency that can be applied by regulatory agencies for comparative analysis of companies and for providing incentives to greater efficiency in a specific sector.

Regulation of the rate of return (ROR). This final section is dedicated to the problem of calculating a rate of return on capital for regulated companies, which is important for encouraging investment in infrastructure sectors. Key methods for calculating the rate of return are described, along with the base for these calculations, and important precautions are provided.

The manual was prepared as a part of the "Policy Development Program / Regulatory Reform in the Communal Services Sector of Ukraine," a joint initiative of the State Residential Services Committee of Ukraine and the International Centre for Policy Studies, carried out under the Local Government and Public Service Reform Initiative with funding from the Open Society Institute. ■

The manual is a supplement to the first publication under the project, a policy paper called Regulatory Reform in Ukraine's Residential Services Sector. Both publications are available in electronic format on the ICPS website at <http://www.icps.kiev.ua/project.html?pid=6> (in Ukrainian). Printed copies of A Manual on Regulating Natural Monopolies can be ordered from ICPS by contacting Ildar Gazizullin by telephone at (380-44) 236-4477 or via e-mail at igazizullin@icps.kiev.ua.

ICPS holds public policy workshop for NGOs

On 11 May 2005, ICPS held a seminar called "The Role of NGOs in Implementing Public Policy Principles in Ukraine." ICPS Deputy Director Volodymyr Nikitin made a presentation called "The Role of NGOs in Social Transformations through the Formation of Public Policy." The presentation outlined a vision of public administration transformation processes and ICPS experience in implementing public policy principles in Ukraine and other post-soviet countries. This presentation can be viewed on the ICPS website at <http://www.icps.kiev.ua/library.html?9> (in Ukrainian).

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